

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 ARA-16 INT-08 CIEP-02 COME-00 EB-11

OMB-01 OPIC-12 TRSE-00 FRB-03 STR-08 SS-20 NSC-07

SP-03 L-03 H-03 PA-04 PRS-01 USIA-15 CIAE-00 INR-11

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FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 887

INFO AMEMBASSY SOFIA

C O N F I D E N T I A L MOSCOW 11055

E.O. 11652: GDS

TAGS: EMIN EFIN EIND UR

SUBJECT: ASSESSMENT OF INVESTMENT, TAXATION AND EXPROPRIATION  
TRENDS IN THE ALUMINUM/BAUXITE INDUSTRY

REF: A) STATE 145450; B) MOSCOW 7789 (NOTAL)

1. FOLLOWING ARRIVAL MOSCOW JULY 14, KAISER INDUSTRIES  
CHAIRMAN EDGAR F. KAISER AND OTHER LEADING KAISER EXECUTIVES  
HAVE BEEN NEGOTIATING WITH SOVIET AUTHORITIES ON PRICES OF  
ALUMINA SUPPLIED TO USSR BY KAISER THROUGH PHILIPP BROTHERS  
DIVISION OF ENGELHARD MINERALS. IN MEETING WITH AMBASSADOR  
JULY 16 KAISER COMMENTED THAT AMONG INTERNATIONAL SUPPLIERS  
ALUMINA/ALUMINUM ALL BUT ONE HAVE AGREED PAY GOVERNMENT OF  
JAMAICA IMPOSED HIGHER TAX RATE RETROACTIVE TO 1 JAN 1974.  
LONE EXCEPTION, KAISER, WILL PAY HIGHER RATE AS OF 1 JUNE  
74, WHEN NEW GOJ MEASURE IMPOSING TAX BECAME LAW.

2. KAISER GROUP HAS BEEN SPECIFICALLY RENEGOTIATING WITH  
RAZNOIMPORT CHAIRMAN IVAN A. RUSSOV PRICE OF 50,000 TONS  
ALUMINA ALREADY CONTRACTED FOR DELIVERY TO USSR THIS YEAR.  
SO FAR KAISER HAS RESISTED RUSSOV DEMAND THAT COST INCREASE  
BE SPLIT EQUALLY BETWEEN US AND SOVIET SIDES (GIVEN  
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PHILLIP BROTHERS COMMISSION ARRANGEMENT WITH KAISER, SUCH

TERMS WOULD COMPEL KAISER TO ABSORB MORE THAN EQUAL SHARE OF DOLS 10 MILLION ADDITIONAL COST RESULTING FROM TAX RISE). EMBASSY HAS NOT SUCCEEDED IN OBTAINING ANY FURTHER INDICATION OF SOVIET ATTITUDE TOWARD JAMAICAN ACTION.

3. NO US OR OTHER FOREIGN ALUMINUM COMPANIES HAVE OPERATIONS IN SOVIET UNION, BUT AS REPORTED REF B AND PREVIOUS, KAISER IS LEADING CANDIDATE TO BUILD LARGER OF TWO PROJECTED MAJOR ALUMINUM/ALUMINA COMPLEXES IN USSR. KAISER PROPOSAL INCLUDES ONE MILLION TON/YEAR ALUMINA PLANT, 500,000 TON/YEAR ALUMINUM SMELTER AND 250,000 TON/YEAR ROLLING MILL. NEGOTIATIONS FOR CONSTRUCTION CONTRACTS ARE PROCEEDING AT NORMAL PACE, AND KAISER HAS RECEIVED NO HINT OF ANY CHANGE IN SOVIET INTENTIONS AND NO INDICATION THAT JAMAICAN ACTION HAS ALTERED SOVIET PLANS, ALTHOUGH DISCUSSIONS ON DETAILS OF FINANCING HAVE YET TO FOCUS ON RAW MATERIAL PRICES (PROJECT CONTEMPLATES SOVIET PURCHASE FROM KAISER OF ALUMINA FOR PROCESSING IN COMPLEX). BECAUSE NEGOTIATING FRAMEWORK INCLUDES UNDERSTANDING THAT KAISER INVESTMENT WOULD BE REPAID IN PLANT OFFTAKE (UP TO 30 PERCENT OF OUTPUT FOR 10-15 YEARS OR LONGER) IT APPEARS LIKELY THAT PRODUCT OF NEW COMPLEX WILL BE EXPORTED. ASSUMING SATISFACTORY CONCLUSION OF CONSTRUCTION, FINANCING AND OTHER CONTRACTS FOLLOWED BY SUCCESS IN ACTUAL CONSTRUCTION OF PLANT FACILITIES, AT LEAST A PORTION OF KAISER'S SHARE OF OUTPUT SEEMS LIKELY TO REACH U.S. MARKET, PERHAPS BY 1979-1980.

4. SOVIETS EXPECT THAT SECOND ALUMINUM PROJECT WILL BE UNDERTAKEN BY PECHENEY. AS CURRENTLY PLANNED, THIS WOULD UTILIZE ALUMINA IMPORTED FROM GUINEA TO FEED A 500,000 TON/YEAR ROLLING MILL. REPAYMENT OF CONSTRUCTION COSTS WOULD BE MADE BY ALLOCATING UP TO 50 PERCENT OF OFFTAKE PER YEAR TO PECHENEY. NEGOTIATIONS ARE UNDER WAY BUT NO CONTRACTS HAVE YET BEEN CONCLUDED.

5. AS SOVIETS HAVE INITIATED PLANS DESCRIBED ABOVE AND WILL BE OWNERS OF COMPLETED FACILITIES, LOCAL GOVERNMENT ATTITUDES ARE POSITIVE. STOESEL

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